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MANAGEMENT DISCUSSION SECTION

Charles Otton
MD, UBS Investment Bank

So, welcome again. My name is Charles Otton, and I think we can see Paul Jacobson just walking up here from Delta Air Lines. I don't know, Paul, if you want to get mics up, already mics up. Perfect. So, I just have a couple of words of thank you. I think most importantly, we may not have done this already from UBS' standpoint. I think we owe a big thank you to [ph] Carrie and Emily (0:25) for organizing today and tomorrow. So, appreciate all the energy that's gone into – to making today and tomorrow a success. Thank you, [ph] Carrie (0:34); thank you, [ph] Emily (0:35).

My introductory comments around Paul are very small, because I was going to tell you a few things about how we first met, which he's not going to allow me to mention, but he may want to say them in his own words, what I would say about Paul and Delta is that, Delta really is – really at the forefront of the airline industry in this country, setting the bar very high. Has some recent news in Latin America, has done some unusual things with refinery acquisitions, and things that put them a little bit apart from the rest of the industry.

Paul has developed a very, very disciplined capital structure, and I think he's set the bar very high for the rest of the industry. So, all of those are topics I hope we can hear a little bit more from you on, Paul. Thank you for being a keynote speaker here and I think we're going to try and do this in about half an hour. And I would also just like to make one word of advertising. We have, at 3 o'clock, we have a late arrival; we have Hunter Harrison from Canadian Pacific, who will be talking in this room as well, which should be quite interesting, given everything that's going on in his space.

So, Paul, Paul Jacobson, Delta Air Lines.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

Thank you, Charles. Thank you for that introduction, Charles, and thank you for having us today. We are being webcast today, so those who are joining via webcast, we appreciate that as well.

I'm joined here today by [ph] Winnie Smith (2:00) from our Investor Relations department and we've made the sacrifice to come down to beautiful Boca Raton and present, but it's been a great day and a lot of great things going on at Delta.

But before I begin, obviously, we've got a very deep partnership with Air France and I want to express my thoughts and prayers and condolences to all of our French colleagues and pray for the people of Paris, obviously a challenging time for the world and we live in a challenging world. And that world has a lot of risk to it and it's a challenging time for all of our leaders and for the business community as well.

Those of you, who have been following our story, know that we have been very cognizant of the fact that we are in a challenging industry within that world and we need to focus on continuing to take risk out of the business everywhere we can. And that's a theme that flows through our comments all today and you'll see throughout many of the themes that we have throughout the business and through our multiple presentations and really the core strategy of the business as well. So we'll spend some time talking about that today.

Our Safe Harbor statement and our presentation does contain some forward-looking statements, you can read more about our risk factors in our Investor Relations website at delta.com. Really through consolidation, innovation, capital discipline, all of this coming together, we spend more and more of our time today comparing ourselves to other industries and high-quality industrial peers, and less time talking about the history of the airline industry and where we've set in those terms.

Those of you, who have heard me speak before, know that I don't shy away from the history of this business and the history of this business has been challenging to say the least, but rather to help to augment the thesis that this time really is different understanding for well that every airline executive that has told you that before has proven out to be incorrect.

But there are a lot of reasons to believe that this time is different and really when we think about ourselves, and when we look at our metrics, we are setting the bar against other high performing S&P industrial companies. That is the construct that we need to measure ourself against. That's the bar that we need to raise. And you will frequently hear inside the halls of Delta, this is what real companies do, and while we say that a little bit tongue-in-cheek, it does represent a fundamental transformation of how the business is viewed today, and how we think about it in terms of managing to free cash flow, managing to return on invested capital, returning capital to shareholders, and finally probably the most important word that you'll hear today is sustainability, because if we can prove that we've got a business model that is sustainable in good times and bad times, and we shy away from the cyclicality of the past, only then, can we start to really get valued as a company, and as an industry for the type of cash flow generation that we have the capability to generate year-in and year-out.

All of this really began, as Charles mentioned, he is reticent to talk about how we first met, but it was during the end of our Chapter 11 process. And when you think about just 10 years ago, the transformation that's occurred in this business, it really is mind-boggling and the stuff that really years from now and decades from now, they'll be teaching I think in business school cases throughout the country about what was the transformation and what was that catalytic effect. So as you came out of restructuring and went into consolidation, we really have set the bar in terms of leveraging scale to our benefit.

No more are we a fragmented group and no longer is Delta a fragmented regional company that is struggling to find the outlets for growth through the increasing inefficient deployment of capital in new assets. But instead, we're now leveraging our network scale to drive revenue much, much more efficiently.

Since the time of the merger, revenues have increased by 20% on 20% fewer departures, 5% fewer seats, and most importantly 12% fewer aircraft. When you think about the leveraging effect on return on invested capital with those types of numbers, it's easy to see how the transformation has been successful as it has.

But in a consolidating industry and any consolidating industry, it's important that you differentiate yourself. And we have been very, very focused, laser-focused, if you will, on developing and investing in a high-quality product and a high-quality experience for all of our customers. That's what's going to drive the sustainability of earnings. If we're able to drive a revenue premium with cost discipline and capital discipline, that's what real companies do, right, and that's what we need to be focused on driving to.

So you see all of our goals that we outlined annually, our long-term goals are free cash flow-oriented, return on invested capital-oriented, and generally focused on de-risking the business, and you've seen those types of results. Probably, pretty significantly you've seen those results in the last 12 months to 24 months, where, forgive the pun, the results have really taken off. But through that type of performance that you've seen, you see measures in all profitability metrics really ratcheting up. That is a function and a testament to the 80,000 Delta people that are out executing their jobs, the best that they can and the best in the industry; whether it's completion factor, where you see, you hear the stats about how many flights that we're completing are on time performance or our customer service scores.

It translates into growth across all of the important measures in income and cash flow and helps to drive that return on invested capital. But at the end of the day, if we can't continue to drive that margin expansion, we can't continue to drive that free cash flow generation, then this was nothing more than just another cycle.

And just another cycle is a mantra that's been off-repeated in the airline industry and the problem with the cycles in the past has been the amplitude of the highs and the lows; it's been worse every single cycle. And we've always proven that we can generate positive cash flows in good times, we've never proven that we can sustain those cash flows or generate positive cash flows in bad times, which is why there's such a focus on sustainability and discipline and improvement in the balance sheet.

Because as we think about efficient capacity growth and we think about how to invest in the business in order to drive that revenue premium and be a high-quality product that's differentiated in a consolidated industry, we have to think about sustainability, not doing too many things too fast, not having to undo what's been done in the name of customer service because we can't afford it. The old model of cost performance in this industry is to give to the customer, give to the employee and take it away at the next possible time.

Brand cannot be a variable cost. We need to focus on consistent and stable improvement over that and you've seen that in our results time and again over the last several years. We also need to be very, very focused on costs. And we've set out a goal, really a couple of years ago, to keep our unit cost inflation below 2% and to keep our unit cost inflation below 2% on a goal of maintaining capacity discipline. You can get to low CASM, and many low-cost carriers and many other airlines that have come and gone have gotten to low CASM on the backs of a lot of growth. And that's a challenge, because then you disrupt the revenue premium model, and you end up growing way beyond the demand capabilities of the markets that you serve.

We've got to drive cost productivity differently, and we've got to do it in a way that leverages our size and our scale and really goes and finds ancillary ways and tangential ways to improve the product at a more efficient delivery point. Therefore, the customer never sees the cost enhancements that you have, rather you're using it to reinvest in a better customer experience going forward. And you can do that throughout all areas of business.

Charles mentioned the refinery, and we'll talk about fuel a little bit later. But really leveraging the supply chain to make sure that with our scale, we're realizing all the benefits of our size and our scope that we can in order to drive better cost performance.

The revenue side of the equation really hinges on kind of three pieces. First and foremost is the network. Second is the product. And third is the level of service. We've invested across the board, whether you look at our global portfolio with Virgin Atlantic and investments in China Eastern and GOL and Aeroméxico or you look at the strength of our hubs and what we've been able to do to actually increase our presence with initiatives like our Seattle strategy, where we built out a West Coast gateway and a hub operation there and a market that's doing very, very well for us. Or you look at what we've done in JFK, where 10 years ago, Delta was really the airline that you took to Disney World with the family, but if you were traveling for business, you really were going to fly somebody else. Delta was just a regional player in that market.

Well, in 10 short years, Delta is now the largest carrier in LaGuardia and has a preeminent position in the New York landscape. We need to continue to focus and continue to grow and develop that network presence where we have it and leverage those high-revenue, high-impact, high-corporate markets with the premium product that we bring to the table.

And the team has done a fantastic job, whether it's Gail Grimmett, who runs the New York strategy for us, or entire corporate sales team worldwide integrating with our global partners, we have really, really improved our market share in that space on the backs of better operational performance and a strong global presence.

We also need to make investments in the product. We have not only upgraded our fleet, but those airplanes that are not new, we've also retrofitted with state-of-the-art technology. We're the leading carrier for Wi-Fi rollout and distribution and we're in the process of augmenting that with a better product going forward that we're putting into our airplanes with more bandwidth and greater functionality for our customers.

But also making sure that we have the advent of what would be considered kind of plain vanilla technology. These things that you don't think about but do have value to you, larger overhead bins, fluorescent lighting, cleaner airplanes that are more modern and sleek, in-flight entertainment, capabilities for personal devices to stream audio and video through the servers on the airplane. All of those things contribute to a better customer experience. But at the end of the day, what corporate travelers, what you want more than anything is to have a smooth flight that gets you on time where you're going without any cancellations.

And our people, through our customer service focus and the investments that we've made through the system, know that that's the most important thing. So when we look at running the business, we're looking at running to a point where we're actually disappointed with a cancellation. We get a daily report every single day that shows what our completion factor is. And it's become the norm to see a day when you have 100% completion factor. Every flight that was scheduled to leave made it to its destination.

It doesn't mean that there weren't problems, it doesn't mean that there weren't weather delays, it doesn't mean that there might not have been mechanical issues that arise. But at the end of the day that flight completed, because there's a business traveler and a corporate traveler or even on leisure. The number one inconvenience that you can have as a passenger is to have your flight cancelled, throws your schedule into chaos, you don't know what you're going to do, you don't know, how long it's going to take to get rebooked. The more efficient you can make that factory not only the better service you can give to your customers, but the more efficient and the less costly it is to deal with those disruptions.

To date, I believe we've had over 189 100% completion factor days, which is head and shoulders above the industry. And we're out actually marketing that. For the first time ever, an airline is offering operational performance guarantees to its corporate customers to make sure and ensure that we put our money where our mouth is and we back that up with their commitments to our corporate travel agents and to our corporate travel managers that are out there trying to make decisions on what they're going to do.

It's not as important as to whether another airline might give you a 1% discount or not. It's important as if we can meet the needs of that company and travel reliably and get their people, where they want to go and get them home on a consistent basis.

And our team is doing fantastic, fantastic job with that and you see that. On a slightly bigger company, mind you, but you look at what our revenue has really done since 2005 on a combined basis. The results are extraordinary and we've done that in a very disciplined way going forward. The aspect of – two principal aspects of revenue generation on the network side that we need to talk about really is the dynamic nature of the assets and secondly is the international relationships.

When you look at the asset, think about aircraft assets, not unlike a portfolio that you manage. We have the unique opportunity of ensuring of the ability to move our assets around to where there are opportunities and where they present themselves. Think about this as a portfolio weighting strategy in a global economic environment.

And it's probably most prevalent, where you see our fourth quarter capacity plans, which we announced earlier this year in a world where oil is about $45 a barrel, Delta on a system-wide basis has flat capacity. We have no growth in a world, where our principal input cost is down over 50% on a year-over-year basis, because we're positioning this for sustainable demand growth and balancing the business in a very calculated methodical fashion.

But it's not just that we're flat system-wide. What that means is that we're actually growing in the United States. Our capacity is up 3% in the U.S.; we're focused on areas, where we're trying to leverage past investments, Seattle, New York, Los Angeles, Atlanta, those areas where we feel like there is enough demand for us to generate a return on that growth. But we're down internationally; we're actually down 4.5% internationally with the bulk of that coming in the Pacific, where over-capacity and currency challenges have really stood in the way of a robust economic growth perspective.

But as a result of that, as a result of moving those assets around, year-to-date, you can see at the bottom of this chart on page eight, that we're generating a 7% premium system-wide to the U.S. airlines, to the A4A carriers. And what that means is, simply put, there are more people willing to pay more money to fly on Delta, because of the customer service, because of the network, because of the deployment of our assets. We're better able to optimize our unit revenues across our fleet than our competitors are, and none of that's probably more pronounced than in the domestic market, where domestically we have a 14% unit revenue premium to our competitors within the U.S.; proof that the growth is working and that the growth is different. We're competing on product, we're competing on reliability, we're competing on customer service and you see that taking hold throughout the system.

You may have seen yesterday, we announced an intent to launch a tender offer for up to 32% of Aeroméxico. We currently already have economic interest in 17% in Grupo Aeroméxico, and are interested in launching a tender offer to acquire up to a 49% stake in that company.

Mexico is actually the second largest trans-border trade market in the world, and we are very optimistic and very enthusiastic about the economic prospects and the future of Mexico. If you look at Latin America, Mexico is now the largest economy to travel to the U.S. and is actually doing quite well for us.

When you think about Latin America, we called out challenges, but we repeatedly said that Mexico and the Caribbean are actually doing quite, quite well. And there couldn't be a better partner for us than Aeroméxico. So with this increased ownership stake, it's really going to help us accrue benefits outside of the partnership and try to bring our coordination and our experience to help them improve their business model jointly together, and to figure out ways that are going to help enhance value to us through that relationship.

This has a long runway attached to it. We are in the process of going through regulatory approvals. We expect that those regulatory approvals will move on and we will likely be able to commence the deal in the June quarter of 2016. But we're very excited about this development and look forward to deepening our relationship and partnering with our friends in Aeroméxico.

On the cost side, again the principal cost element for us, and really for any airline even at these prices, is fuel. And how do we think about fuel generally? Well, we think about it a little bit differently than maybe our competitors do and certainly differently than we have in the past. Fuel historically in the old model of the airlines was something that was completely uncontrollable. And while our ability to control fuel price risk is not nearly what I would like it to be, but for an airline it's not too bad. And what we're able to do is, actually go in and use our size and scale to do things like acquire an oil refinery. The first step that has ever been taken in terms of that form of vertical integration was in the industry, but a function of the size and the scale of what we are.

Delta consumes 4 billion gallons of jet fuel a year, which is about 260,000 barrels a day. That oil price exposure means that every penny per gallon is about $40 million to the bottom line. And as you can see by watching the market, sometimes that can change $0.03 or $0.04 in a day, sometimes even more in periods of volatility. By purchasing a refinery, we're able to increase the amount of jet fuel being produced, particularly in the Northeast, but certainly throughout the country. And as a result, you're seeing jet crack spreads actually decline pretty significantly, especially measured when in relation to diesel fuel. That's a great example of what scale can do for us, and this year we expect the refinery to generate about $300 million of benefit for Delta uniquely, over and above the improvement that we see in the market side with lower crack spreads.

The other side of it is trying to manage volatility through fuel and that comes with its good side and its bad side. And in 2015, we certainly saw the challenges of fuel hedging program in periods of rapid declines in price.

Notwithstanding that, we participated in over 50% of the price decline. But more importantly, as we look to 2016, we have about $1.5 billion tailwind heading into the year at current oil prices. So we do have some hedge losses in 2016. Those are a little bit more than $400 million, as we've disclosed before. But when you come off the year, it's $1.5 billion tailwind to where we are.

So as you think about where we sit now and heading into 2016, we're actually positioned better than any carrier for additional margin expansion into 2016 as a result of lapping those hedge losses. And we expect the second half and the first – and for 2016 to be in line, if not slightly better than the industry average fuel price. When you combine that with the revenue premium from our operations, it's a recipe for continued success over and above the industry into 2016.

The second piece of cost management is really on our productivity side and our non-fuel unit cost. We have actually completed, I believe, 10 consecutive quarters of unit cost below 2% since highlighting that growth at the end of 2012. And ultimately, this is one of the keys to our future success, as being able to leverage our scale, leverage our size to continue to keep cost inflation in check, finding new and new ways to be creative around productivity, and to try to find new ways to deliver the product to our customers in ways that are more efficient, more seamless, more integrated, so that we can continue to drive cost performance out of that.

Roughly 55% of our costs are variable, which means as we have to flex the network, there are some challenges and they'll take some time. But if we can be cautious and we can be prudent with our capacity plans as we always are, we can better respond to whatever might happen throughout the world, and be in that position. So we've got to be in a position to keep those costs down every single year, year-in and year-out.

For the last several years, we've had a nice tailwind from upgauging. This is what happens when you retire 50-seat regional jets and bring in 717s or 737s and tail that into the – or dovetail that into the network, into the fleet in order to drive more efficiencies. The higher the gauge you can have on an airplane, the more efficient it is. Every airplane needs a lot of fuel for takeoff and landing, every airplane has crew costs that are fixed. Having a bigger airplane smoothes that out over more capacity and when you keep that in balance with demand, you're going to drive more efficiency throughout the network.

While we've been at this pretty hard for the last few years, we still have some runway to go. We still have improvements where we're adding density without sacrificing customer legroom or product on some of our remaining mainline fleet. And we continue to see benefits or we expect to see benefits on upgauging continue to accrue to us in 2016 and into 2017. We're also retiring some older airplanes. We've saved maintenance costs from doing that, not that older planes are necessarily bad because we've got the best maintenance shop in the business. And despite our fleet age, we actually deliver the best unit maintenance costs in the industry as a result of our productivity and what we're able to do. It's a strong, strong reason why we're able to do what we can do on the capital side.

That being said, when you do have to retire them, when they can no longer fly, you do get maintenance savings. You get maintenance savings from being able to use the parts off that airplane that still have life remaining on them, but also avoid those costly maintenance events and get some benefit from the new airplanes that are coming in where you're enjoying that honeymoon period.

Technology is a huge driver of productivity for us. We've been very, very focused lately on the revenue side of the equation in terms of launching our Branded Fares initiative and making it easier for customers to choose the experience that they want, that Delta can provide. But technology improves a lot of frontline productivity as well, whether it's staffing model or making it easier for our customer service agents to interact with our customers and to be able to anticipate their challenges and questions, gets them ahead of the curve and allows us to be able to manage all of our costs much, much more efficiently with improved customer service. So we believe we've got a solid plan in place to continue this cost performance into 2016 and beyond, and it's a key driver of what we need to do going forward.

All of that sounds very similar to the past. We've got to manage costs, we've got to keep revenues and grow revenues. That's very consistent with what airlines have done. The rest of this presentation is really fundamentally why I think the airline is different this time around, and it has to do with capital deployment and cash flow.

Historically, cash flow has been something that belonged to others. It didn't belong to the airline and it didn't belong to shareholders, because in periods of heightened economic volatility, everybody that touched the airline, vendors, suppliers, taxing authorities, et cetera, all made their returns, while airline shareholders were left with whatever crumbs may have fallen off the table. More often than not when things were tight, not only was there no equity return to be had but oftentimes what would happen is equityholders would be diluted, because on a levered balance sheet, the only thing that was available to people in times of need was a convertible or a follow-on equity offering. And all airlines throughout history have been guilty of doing that.

If we're not focused on balanced capital deployment, improving the balance sheet, returning cash back to our shareholders and keeping a lid and keeping a tight hold on capital expenditures, then really it isn't much different. It's just more profitable. We've got to focus on fundamentally shifting that and that's what we've been doing really since 2013, since we made that first capital deployment announcement. But what we've really been doing is running the business that way since 2009, reinvesting in the business, focusing on continued investment to drive return on capital, and to drive profit performance, strengthening the balance sheet.

Key to this industry is taking risk out of the equation and making sure that we're not living life on the edge, so that we can't deal with disruptions when they might occur. Having that capacity and having that flexibility that a strong balance sheet can provide you is paramount to running a business efficiently and sustainably, especially when it has global risk attached to it.

And lastly and certainly not least is returning cash to shareholders. How can we, as an airline executive, stand in front of you and say we need to be fully valued for our cash flow if there is no cash flow going back to our shareholders.

It belongs to you, we are stewards of that capital, and we need to be good and faithful stewards of that capital. And sustainable capital deployment in a balanced fashion is what the key is to that over the long-term. So when you think about our long-term plans that we announced back in May, and we'll continue to highlight this through our Investor Days and other interactions, we expect to generate over $20 billion in operating cash flow over the next three years, counting 2015. And that comes with a lot of responsibility.

And when you look at this page 13, I don't think there is a better depiction of why this time is different than what this slide shows you. The red line in the top chart shows you the operating cash flow; the blue bars are capital expenditures. And as I've said in my prior remarks, airlines have always been able to generate cash flow in good times, that's never been in doubt. In fact, if you look at 1999 and 2000 timeframe, we were generating $4 billion of cash flow. This is on a combined Delta and Northwest basis. But the key difference is in the capital expenditures, because at a time, when the airlines 15 years ago were generating more cash than they had ever generated before, we were responding to that environment by actually borrowing more than we had ever borrowed before, and levering up our balance sheet during the best of times.

We were doing that, because it was a matter of survival, it was a matter of growth. How are you going to grow your top line, if you don't add seats and try to fill them up with improving your market share? And when you do that and your average cost goes down, well priced becomes a tool that you can go lure that away. It's a great business model in the short-term, in the very short-term, but it's not a business model that's ever proven to be sustainable in any industry, let alone the airline industry with its history.

So, if you really look back and think about when did this transformation occur for us, it really occurred in the 2009 timeframe. The 2009 timeframe is when we started to say, you know what, we need to focus on free cash flow. We got to focus on putting a stake in the ground and understanding that we can't do it all. No airline can, no company can. Capital constraints are very real, the numbers might be bigger in other companies and other industries, but you've got to be discipline, and you've got to be focused on that.

And as a result of that, you've generated significant amounts of free capital through that mode of capital discipline. So, as we think about a business model for the long-term, where we want to reinvest 50% of our cash back into the business, that free cash flow provides the opportunity to pay down debt, to pay down pension liabilities, to return cash back to shareholders. And you can see us doing just that. Since 2009, we've repaid over $10 billion of debt.

We've taken our interest expense down from $1.3 billion in 2009 to just over $400 million that we expect to see on a run rate kind of where we are currently. And we think that number will continue to go down as we move down towards our long-term debt target in 2017. But this is really a paramount indicator of how important cash flow is within the business. We talked about de-risking the balance sheet and how important that is. We think our interest expense, when we get down to $4 billion, will run about $200 million annually. Over $1 billion in annual cash savings in the business and that's important, that's $1 billion in improved cash flow by simply running a better balance sheet that is more of a sustainable business model, which ultimately helps to provide more money for shareholder returns.

When we started this process in 2013, the wind was in our sails and we were in a world, which really stood in awe, as we announced a $500 million share repurchase program over 2.5 years, that was just two short years ago. Now we sit executing about that much of the capital return every quarter and we're doing it in a way in which we're doing it sustainably and systematically, not as a way to time the markets or to financially engineer the balance sheet. But instead as a way to get into a regular, sustainable pattern of cash deployment back to shareholders and allowing those shareholders to improve their stake as they want to sell their shares or to not sell their shares and improve their ownership in the company, which is consistently improving.

So, we expect we'll return over $2.5 billion in cash back to shareholders through dividends and buybacks this year. And it's actually one that the industry has followed through on as well. This is what real industries do. This is what real companies do and I believe, Darryl can correct me if I'm wrong on this number, but I believe the current estimates are that the industry will return over $9 billion in capital this year.

We've come a long, long way since 2013, and really come a long, long way since with a troubled past, and you see that reflected in the stock price. Obviously, we've outperformed our peers over that time period and significantly outperformed the S&P 500, which might tell you that we're done. The reality is when you compare us against any metric of valuation in the S&P Industrial context, really among the transport, we're still valued at a significant discount. We have a long way to go. We have a long way to go to prove that it's different. We have a long way to go to withstand the shocks that are out there that many people still speculate might return us to the cyclicality of the past.

We're committed to not repeating that, we're running the business to take risk out of that equation and we think that our results show that. So over time, we expect that we'll be fully valued, because there isn't any Pepsi Challenge or isn't any blind taste test that would look at these cash flows, absent the history of the industry that they represent, and continue to value Delta or other airlines at that type of multiple.

Therefore, the only reason for that discount is history. And it's a history that we have to own and it's a history that we have to change and we have to manage. I was recently asked in an interview, what would I go back and change in the past? And the answer I gave, is, nothing. And the reason for that is we are who we are, because of the path that we've taken in the past, the decisions that have been made, the challenges that we've made it through, and the knowledge that we've taken through that.

The past in the airline industry is an important lesson for all of us. It's an important lesson to remember, and it's an important fact to have whatever we're thinking about the future of this business. And nobody takes that more seriously than I do within Delta and within the industry. I think about this a lot. And the important piece of that is, we can't repeat it. We've got to run the business differently, we've got to focus on doing that differently, and I'm very optimistic about what our future is.

So thank you for your attention, and thank you for your attendance. I think we've got a few minutes for some questions.

QUESTION AND ANSWER SECTION

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Do I need to take this out? We've got a mic. I have a fancy picture of...

Darryl Genovesi
UBS Securities LLC

Q

Hi, everyone. I'm Darryl Genovesi, the U.S. airlines analyst I have a couple of questions for Paul, and hope you all do too. If you do have a question, just put your hand up and maybe, [ph] Carrie (37:43), you could help us out with the mic? Thank you.

So, maybe just start with your last slide. You had talked about the importance of the airline industry, it's history, the lessons that you've learned over the years. You have a lot of new airlines, that have come about, call it over the last 10 years to 15 years, that perhaps didn't live through as much of this pain, as the legacy airlines have. Do you think that there is – if you consider the sustainability of your earnings and perhaps that of the industry overall, do you think that there is – that history resonates well with your growth-oriented carriers that perhaps weren't there for the bad time. And I guess, what gives you confidence that great return on invested capital targets through 20% to 25% number that you're expecting through 2017, can actually sustain beyond that into perpetuity?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Well, I think that's a great question, but I don't think that what we see today, in terms of growth carriers is different than what we had to deal with in the past. But I do think that, the way we compete is very, very different than the way it has been in the past and scale and technology is a big, big part of that. So, last Investor Day, Delta announced our Branded Fares initiative, in which we would like to create different experiences for passengers based on what they value and how they think about their needs and their value within their travel experience, not unlike what you'd see in a hotel model, if you're going to book a room at this hotel, you might see four or five different price points, it might be for the same room, but it's going to be based on a very different experience that do you want breakfast, do you want parking, do you want Wi-Fi, things like that.

And there are many things that we can do to that within the umbrella of the airline pricing model. So would you see the product offerings that Delta has, Basic Economy, the Main Cabin, Comfort+, Delta One, First Class, those are all different tools to be able to allow people to tailor their experience and within each of those classes and within each of those products, you can cater to a different customer.

So a Basic Economy passenger might be competing much, much more with a Spirit, or an Allegiant or a Southwest, whereas your premium Delta One cabin might be competing more with the global U.S. and foreign airlines for corporate travel. So being able to create that differentiation within the cabin and using technology in a way to deploy that to customers to translate that back to value is a very different tool than we've ever had before. And as a result of that, we can target that competitive to where the competitive demand is and really focus on driving the value for our products, wherever it might be.

Darryl Genovesi
UBS Securities LLC

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Thank you. And then, maybe if we could just talk about your Mexico deal a bit. Do you able to – I don't cover Aeroméxico, but it looks like the consensus is expecting just a little over MXN 2 in earnings per share out of Aeroméxico next year. You're paying MXN 44, right so, kind of close to 20 times the anticipated earnings generation. Can you just try to help us understand a little bit better perhaps why that's a better investment than just buying back your own stock at something like half that multiple?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

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Sure. Well, I think if you look at our track record with investments, pointing to Virgin Atlantic and our past with Aeroméxico, it's really not as much about whether you're going to get a pure return on the stock price. It's about how much value can you drive with a deeper relationship and a deeper partnership. And while I'm limited as to what I can say, given the fact that it is before regulatory bodies, what I can say is we see a lot of opportunity to enhance their performance and enhance our performance as well as enhancing the experience for our customers that we share through the alliance and the partnership. So there are a lot of value drivers out there, a lot of opportunities for us, and keep watching and you'll see that come clear.

Darryl Genovesi
UBS Securities LLC

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And then on your target for sub 2% long-term, non-fuel unit cost growth. I think you said on your third quarter earnings call that you think that that's achievable, even in 2016 with the additional labor expense that you will take on. Can you just help us understand what some of the underlying assumptions are specifically around what would happen to that number if you had a deal completed with the pilots' union?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

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Well, I think we usually roll that information out at Investor Day, which is coming up on December the 17th, if I have my date correctly, and we'll spend more time talking about 2016. But obviously, in any year, we've got cost pressures that we've got to manage, whether it's labor pressures or maintenance pressures, inflation, foreign currency, et cetera. And 2016 is no different.

We do have a pretty big geography shift and wages that we gave to our non-pilot employees effective December 1. And that was retooling the profit sharing program for them. So it'll be a little bit noisy in 2016 with a split profit sharing program. But if you think about that geographically in the context of wages as a function of reduced profit sharing, we feel very, very comfortable about keeping below 2% next year. And we can add more specific details at Investor Day.

Darryl Genovesi
UBS Securities LLC

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Great. Thank you. Any questions from the audience?

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Thanks. I think on the last conference call, Richard talked about a wide-body supply glut, used wide-bodies availability at $10 million for a mid-life wide-body. There has been fair amount of pushback on that, particularly aircraft lessors said that's not accurate. Can you just expand on that, how widely available those type of aircraft are? And are you thinking about – looking more to the used market to kind of augment your wide-body fleet, much like you've done on the narrow-body side?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

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Right. Well, first of all, I think Richard's comment on the last quarter conference call was that we had been offered a 777 for – or 777s, not just one – for $10 million and we turned it down.

The reality is I've known Richard a long time. Richard doesn't make things up and that's a lesson for everybody as well. And I can certainly understand why some people would be reticent to accept that that might be the valuation, but the reality is there. And when you think about the world and you look at the wide-body orders that are out there, I think it's really hard to deny that there is a bubble out there with the amount of deliveries that are upcoming.

Now the way that bubble manifests itself could be a couple of different ways, right? You could see a lot of push-outs, right, because the global economy is not growing at near the rate that the wide-body capacity is being delivered into the global industry.

So, people are either going to defer those airplanes or they're going to take those airplanes and park other airplanes. So, that glut is going to manifest itself one of two ways. It's either going to be in deferrals or it's going to be in valuations of older airplanes or airplanes coming off. And we've certainly seen indications of that with what we've been offered.

But at the end of the day, the challenge for us, as it is for everybody, is how to deploy that wide-body in the world in this economy. So, the used strategy for us is one that we have availed ourselves of many times and it works really, really well on the narrow-body side. The wide-body side is a little bit harder because of the basically the induction cost to get into your maintenance program to get the interior of the airplane modified to your brand and consistent with your brand can cost tens of millions of dollars.

So, it isn't as compelling, because the other thing that Richard said was we turned down that offer and that ultimately was why, but it doesn't mean that there aren't opportunities out there. The way Delta participates in that is by maintaining a disciplined CapEx forward look and not getting too deep too soon with new aircraft orders. We have that optionality in our own fleet book, in our own fleet plans, to be able to manage and to be able to take advantage of opportunities that present themselves like the 717, like the MD-90s that we've done in recent years and there will be more going forward. But it's not a strategy, a used aircraft strategy is not one that you can build an entire fleet over because by definition, it's opportunistic. So, you have to supplement that with new aircraft deliveries, which we've done with 737, 900s, A321 coming in and someone on the wide-body side to help facilitates the retirement of the 74.

So, we think there are opportunities out there, we think on the wide-body side, they're going to continue to get better, because it's something I've got to give in that relationship, if you look around the world and you think about the global economy.

Darryl Genovesi
UBS Securities LLC

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I just have one more and then maybe we can wrap up. Paul, you have a target for – at the midpoint of our guidance, with 3.5% revenue decline in the fourth quarter, you saw only a 1% decline in October. So, your guidance is implying a sequential deterioration in the rest of the way. Holiday calendar placement asides, just considering November and December, perhaps on a combined basis, is there a reason why that period would look worse on a year-over-year relative to October?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

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Well, going back to what we've said on our call Darryl. We said that the quarter was going to be choppy. November was going to be the best month of the quarter. December was going to be the worst moth of the quarter. October was going to be somewhere in between.

And October came in, in line with our expectations, as a result, we haven't changed our quarterly guidance, and we still feel confident about that, that quarterly revenue guidance, but it is going to be choppy and you can't talk about that type of performance without talking about shifts of holidays, and shifts of days, and where they happened day of the week, a Friday, Christmas, New Year's is generally turns to be worst to travel, because people will take all the week off, a Thanksgiving that appears late in the month, it changes the calendar dramatically, because the Thanksgiving return travel those two days are two of the highest revenue days in the year.

So, with one shifts out of December and into November, we get a lot of noise around those numbers, which is why I'm not a big fan of monthly performance, monthly RASM because it does create that noise, but I would just say that the quarter is in line with what our expectations were as we said on the call.

Darryl Genovesi
UBS Securities LLC

Great. Thank you very much.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

Thank you, all.